

Message Text

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TO AMEMBASSY KINGSTON PRIORITY

C O N F I D E N T I A L STATE 002839

E.O. 11652: GDS

FOR: THE HONORABLE ARTHUR F. BURNS, CHAIRMAN
FEDERAL RESERVE BOARD, SHERATON-KINGSTON HOTEL.

TTE STATISTICAL DIGEST CONTAINED NO SIGNIFICANT NEW DEVELOP-
MENTS TODAY.

THE DOLLAR CAME UNDER SOME PRESSURE EARLIER TODAY IN THE FOREIGN
EXCHANGE MARKET, BUT IT CLOSED ABOUT UNCHANGED FROM YESTERDAY
FOLLOWING SIZABLE PURCHASES BY FOREIGN CENTRAL BANKS.
GOLD ROSE 40 CENTS TO 139 DOLLARS.

IN OTHER INTERNATIONAL NEWS PORTUGAL ANNOUNCED TODAY THAT ITS
CENTRAL BANK HAD SOLD 4 TONS OF GOLD. GERMAN INDUSTRIAL
PRODUCTION ROSE 2 PER CENT IN NOVEMBER; THIS WAS THE FOURTH
CONSECUTIVE MONTHLY INCREASE; IT LEFT THE LEVEL ONLY 0.7
PER CENT BELOW A YEAR EARLIER. FOREIGN ORDERS FOR U.S.
DURABLE EQUIPMENT DROPPED SHARPLY IN NOVEMBER, FOLLOWING A LARGE
RISE IN OCTOBER.

DOMESTIC FINANCIAL MARKETS HAD A STRONG ATMOSPHERE TODAY ON
GENERALLY ACTIVE TRADING. DEBT MARKETS, ESPECIALLY MARKETS FOR
TREASURY SECURITIES, APPEARED TO BE REACTING TO A VIEW THAT
MONETARY POLICY HAS EASED. THAT VIEW WAS REINFORCED BY
DESK REPURCHASE AGREEMENTS DURING THE DAY AT A RATE OF
5-1/8 PER CENT. AN EFFECTIVE RATE OF 5.05 PER CENT IS EXPECTED
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FOR THE DAY, ALTHOUGH TRADING AT RATES AS LOW AS 4-1/2 PER

CENT WAS REPORTED. THE 3-MONTH TREASURY BILL RATE CLOSED AT 5.15 PER CENT, DOWN FROM ITS AUCTION AVERAGE OF 5.23 PER CENT YESTERDAY. THE DOW JONES INDUSTRIALS ROSE 12.99 POINTS TODAY TO A LEVEL OF 890.82. VOLUME WAS NEARLY 31.3 MILLION SHARES.

YIELDS ON MUNICIPAL SECURITIES FELL 10 TO 15 BASIS POINTS TODAY IN ACTIVE SECONDARY MARKET TRADING. IN ADDITION TO THE USUAL MARKET ACTIVITY IN THE HIGHEST-RATED STATE NAMES DEALERS REPORT THAT SOME TRADING ALSO OCCURRED IN LESSER-RATED STATE AND CITY NAMES. MOST OF THE TRADING, HOWEVER, WAS AMONG DEALERS WITH LITTLE RETAIL PARTICIPATION EVIDENT. THE PRIMARY MARKET FACES CONTINUED PROBLEMS ASSOCIATED WITH DISCLOSURE. TODAY, RAMAPO, NEW YORK AWARDED ITS DOLS 14.9 MILLION OF BONDS TO THE SINGLE BIDDER AT A NET INTEREST COST OF 10 PER CENT. NEW JERSEY WILL APPARENTLY RECEIVE AT LEAST ONE BID FOR ITS OFFERING OF DOLS 50 MILLION OF BONDS TOMORROW DESPITE PROBLEMS OF DISCLOSURE. PENNSYLVANIA PLANS A DOLS 100 MILLION OFFERING ON THURSDAY. UNDERWRITERS INDICATE THAT PENNSYLVANIA WILL NOT FACE A SIGNIFICANT DISCLOSURE PROBLEM. YESTERDAY, GOVERNOR CAREY AND LEADERS OF THE NEW YORK STATE LEGISLATURE MET WITH MR. VOLCKER TO DISCUSS THE FINANCING OF THE STATE AGENCIES. THE HOUSING FINANCE AGENCY AGAIN MAY HAVE TO RELY ON A FINANCING PACKAGE PUT TOGETHER BY THE STATE IN ORDER TO RAISE THE DOLS 106 MILLION NEEDED ON JANUARY 15. KISSINGER

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